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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 003613

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TAGS: [ETRD](#) [ECON](#) [PREL](#) [CH](#) [TW](#)  
SUBJECT: CROSS-STRAIT TRADE - OPPORTUNITIES AND RISKS OF  
LIBERALIZATION

REF: A. TAIPEI 1528

[1](#)B. TAIPEI 3218

Classified By: AIT Deputy Director Robert S. Wang, Reason 1.4 b/d

[1](#)1. (C) Summary: Despite dramatic liberalization, Taiwan still maintains substantial restrictions on the import of certain products from the PRC, banning outright 20 percent of all import product categories. A disproportionate number of agricultural product categories are banned. Taiwan producers of some recently liberalized goods, including towels, footwear and wood products, have lost market share to PRC imports and have had to lay off workers, leading Taiwan to implement anti-dumping measures. U.S. and other foreign firms have urged Taiwan to lift more bans, including the prohibition on imports of medical devices. However, some U.S. exporters benefit from the restrictions because competitive PRC goods are excluded from the Taiwan market, for example, fruits and vegetables. We should continue to urge Taiwan and the PRC to further liberalize cross-strait trade while keeping in the mind possible negative effect on some U.S. stakeholders. End summary.

Taiwan Bans 20 Percent of PRC Import Categories  
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[1](#)2. (U) Taiwan has dramatically liberalized cross-strait trade over the last two decades. The PRC now accounts for 28 percent of Taiwan's exports and 12 percent of imports. Taiwan had a trade surplus with the PRC of more than US\$31.8 billion in 2005 and US\$21.4 billion in the first seven months of 2006, according to estimates by Taiwan's Bureau of Foreign Trade. However, these figures also reflect the fact that Taiwan maintains bans, restrictions and other barriers on a range of PRC imports. Out of 10,880 product categories, Taiwan bans 2,232 products or 21 percent of the categories. A disproportionate number of the banned categories are agricultural goods. More than 800 categories of agricultural goods are banned, which account for 37 percent of all agricultural product categories. Taiwan has been criticized because these restrictions are not consistent with its WTO commitments. The Taiwan authorities argue that the restrictions are necessary to ensure Taiwan's security, health, and safety or that bilateral consultations with the PRC are necessary before

the restrictions can be removed.

13. (C) A 2003 study by the Chung-hwa Institute for Economic Research (CIER) on the likely effect of a Taiwan-PRC free trade agreement identified those PRC products subject to the highest trade barriers at that time. Using a model developed by the Global Trade Analysis Project (GTAP), CIER calculated effective tariff rates for PRC imports that included bans and other trade barriers. Tu Chaw-hsia, one of the authors of the study, explained that it identified automobiles and auto parts from the PRC as facing the highest barriers. The second highest barriers were placed on fruits and vegetables, followed by processed food products, seafood products, alcohol and tobacco, and apparel. According to Tu, imports from the PRC of these products continue to face the highest trade barriers.

14. (U) Taiwan lifted PRC import bans on more than 2,000 product categories within a year of its entry into the WTO in January 2002, accounting for approximately 20 percent of all categories. Since then, it has lifted bans on approximately 600 other categories. Every two months Taiwan authorities review import restrictions at the request of industry. Bans that have been lifted recently include non-filled chocolate (as requested by U.S. firms), cell phones, hearing aids, USB adapters, hot press steel and non-alloy steel rods and bars.

#### Potential Impact of Further Opening

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15. (U) Taiwan's remaining restrictions continue to have a substantial impact on cross-Strait trade. However, several of our contacts in the Taiwan government and

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research institutions commented that the impact on trade was difficult to quantify. The European Chamber of Commerce Taipei (ECCT) 2005-2006 Position Paper estimates that Taiwan bans US\$100 million worth of goods from the Mainland each year. The 2003 CIER study predicted that a Taiwan-PRC free trade agreement would increase PRC imports to Taiwan by more than US\$1 billion per year.

#### Taiwan Firms - Lose Market Share, Gains Inputs

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16. (U) Recent liberalization of certain products has shown possible negative effects on Taiwan's domestic industry. In 2002, Taiwan lifted the ban on towel imports from the PRC (ref A). The following year imports of towels from the Mainland rose 52.2 percent and again by 20.6 percent in 2004. By early 2006, the Taiwan market share of PRC manufacturers had reached more than 70 percent. At the request of affected firms in Taiwan, the Ministry of Finance conducted an anti-dumping investigation and on September 12, 2006, imposed anti-dumping duties of more than 200 percent. Taiwan authorities are currently conducting similar investigations into imports of footwear and certain wood products from the PRC. Taiwan shoe manufacturers complain that the Taiwan market share for PRC shoe manufacturers has reached 70 percent. Taiwan lumber producers claim that PRC lumber accounts for 75 percent of the Taiwan market and has resulted in 10,000 Taiwan workers in the industry losing their jobs.

17. (C) Taiwan Institute for Economic Research Vice President Kung Ming-hsin told AIT/T that complete liberalization of imports from the PRC would probably displace more Taiwan workers than the island's accession to the WTO. Kung said that TIER research indicated that Taiwan's WTO accession had displaced 20,000 - 30,000 workers, but liberalization of cross-Strait trade could affect up to 50,000 workers. (Note: Because of job gains

from increased exports, Taiwan's accession to WTO did not lead to net job losses. Taiwan's unemployment rate rose from 4.57 percent in 2001 to a peak of 5.17 percent in 2002, after Taiwan joined the WTO on January 1, 2002. However, it has declined steadily since, falling to 4.4 percent by 2004 and 3.9 percent in the first eight months of this year. End note.) Kung believes the impact of further opening would be reduced if liberalization measures are implemented gradually.

¶8. (C) However, Taiwan firms will also see some benefit from increased access for PRC products to the Taiwan market. Kung noted that some Taiwan industries would benefit from increased access to inputs from the PRC. In addition, many of the PRC produced goods that are banned from the Taiwan market are produced by Taiwan companies that have invested in the Mainland. Two of the PRC towel manufacturers that were the subject of the Ministry of Finance's anti-dumping investigation are controlled by Taiwan investors. CIER's Tu commented that freer cross-Strait trade would also improve the efficiency of resource allocation in Taiwan.

#### U.S. Firms - Winners and Losers

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¶9. (U) Taiwan's bans on PRC imports harm some U.S. firms while benefiting others. Some U.S. firms have actively lobbied the Taiwan authorities to lift certain bans, many seeking to further integrate their Greater China operations. For example, U.S. medical device manufacturers would like to import goods they produce in the PRC into the Taiwan market. They have included the lifting of import bans on medical devices as a priority in the American Chamber of Commerce in Taipei 2006 White Paper. European firms have been even more active in urging Taiwan agencies to lift import bans. In its most recent position paper, ECCT listed 100 banned product categories that it would like to see Taiwan liberalize. The vast majority of these are agricultural goods and processed food products, but the list also includes apparel items as well as glass and ceramic product categories.

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¶10. (U) On the other hand, some U.S. exporters could be harmed by further liberalization if forced to compete with PRC products. As described in ref B, U.S. vegetable exporters would likely be hurt by such measures. Four of the top five U.S. vegetable exports to Taiwan -- cauliflower and broccoli, onions, lettuce, and celery -- face no competition from the PRC due to import bans. The total value of U.S. exports of these products to Taiwan was approximately US\$25 million in 2005. Other U.S. exports could also be affected. As noted above, automobile imports from the PRC face heavy restrictions. If allowed to enter the Taiwan market PRC products could displace some U.S. exports of these goods. The United States exported automobiles worth US\$82 million to Taiwan in 2005 and auto parts worth US\$64 million.

¶11. (C) CIER's 2003 study estimated the likely effect of a Taiwan-PRC free trade agreement on trade with other major trading partners using its GTAP model. The study looked at North American Free Trade Agreement countries as a bloc. According to the 2003 study, NAFTA exports to Taiwan would change very little after a Taiwan-PRC free trade agreement and NAFTA imports from Taiwan would fall substantially. The study found that NAFTA exports to China would fall and imports from China would rise. The overall effect, according to this model, would be a net improvement in NAFTA's combined trade balance with China and Taiwan. The CIER study is dated; it groups the NAFTA countries together; and it looks at the effects of a cross-Strait free trade area rather than focusing on

Taiwan's trade restrictions alone. However, the study suggests that freer cross-Strait trade could be beneficial to the U.S. trade balance overall.

Comment - Right Direction, Proceed with Caution

¶12. (C) Overall, U.S. economic interests would likely benefit from further liberalization of cross-Strait trade. However, as the examples of U.S. fruit and vegetable and automobile exports to Taiwan suggest, there are some U.S. stakeholders who could suffer. The United States should continue to urge Taiwan and the PRC to further open economically to each other, including the lifting of trade restrictions. At the same time, however, we must be careful to consider the impact of liberalization on U.S. exporters and other U.S. firms with interests in the region.

YOUNG